

National Association of Purchasing Management

Report On Business®

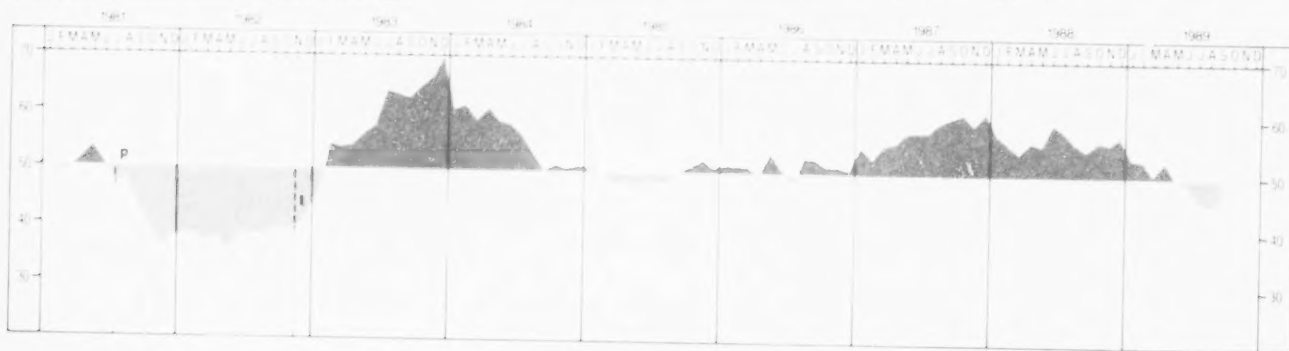
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Economic Decline Eases: PMI Rises To 46.0%

Prices Continue Sharp Decline

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index (PMI)

September	54.7	April '89	53.0
October	56.2	May '89	49.7
November	55.9	June '89	48.8
December	57.3	July '89	46.0
January '89	53.2	August '89	45.2
February '89	53.0	September '89	46.0
March '89	50.4		

September Report

The economy declined in September for the fifth consecutive month, but at a lesser rate than last month, say the nation's purchasing executives in their latest **Report On Business**. The **Production** index declined for the second consecutive month but at a slower pace than in August and July. **New Orders** declined for the fourth consecutive month, but not as steeply as in the previous two months. **Inventories** declined for the ninth consecutive month and **Employment** for the eighth consecutive month, although both declines were at a slower rate than the previous month.

The **New Export Orders** index registered 60.5%, up sharply from 56.0% in August and the highest since April (62.0%). Of the 70% of members exporting, 27% reported better Export Orders, up from 23% in August. The 6% reporting worse Export Orders is down from 11% last month.

Prices declined for the fourth consecutive month at the same rate as in August. A total of 25 items was reported lower in price and only nine higher priced. The **Vendor Deliveries** index fell to 43.8%, the fifth consecutive month of decline. The Vendor Deliveries index was the only indicator to decline at a greater rate than in August.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy ended the third quarter with the fifth consecutive monthly decline. Other than Vendor Deliveries, the pace of the decline eased in September compared to last month. The best news continues to be the significant increase in growth in Export Orders and sharply decreasing prices."

The **Purchasing Managers' Index (PMI)** edged higher to 46.0% in September, up from 45.2% in August and exactly where it was in July. This is the fifth consecutive month of decline registered in the manufacturing economy. Except for August, the index is the lowest since December 1982. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has averaged 49.5% for the first three quarters of 1989. Past experience indicates that if this average were to continue for the final quarter, it would be consistent with real GNP growth of about 1.7% for all of 1989. However, the PMI average for the third quarter (45.7%) is probably more consistent with real GNP closer to 0.6%. The PMI would have to fall below 44% before indicating negative real GNP."

Data and method of presentation

The **Report on Business** is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

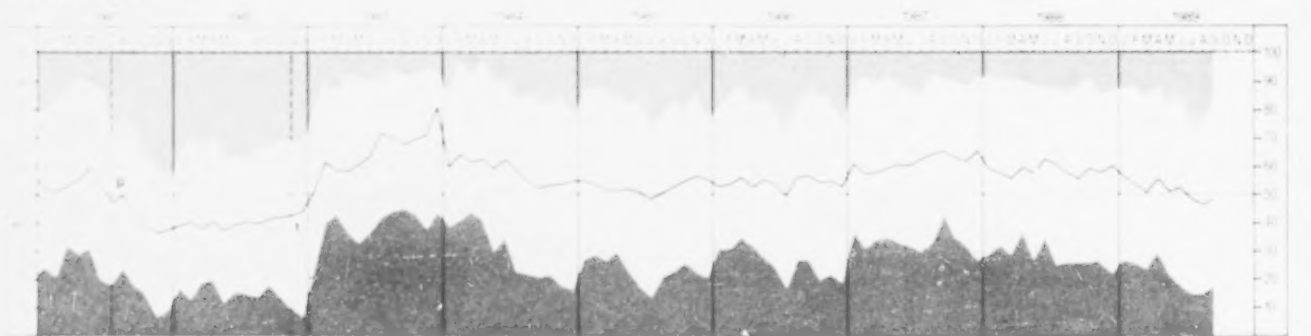
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak (P — July 1981) and trough (T — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. Variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

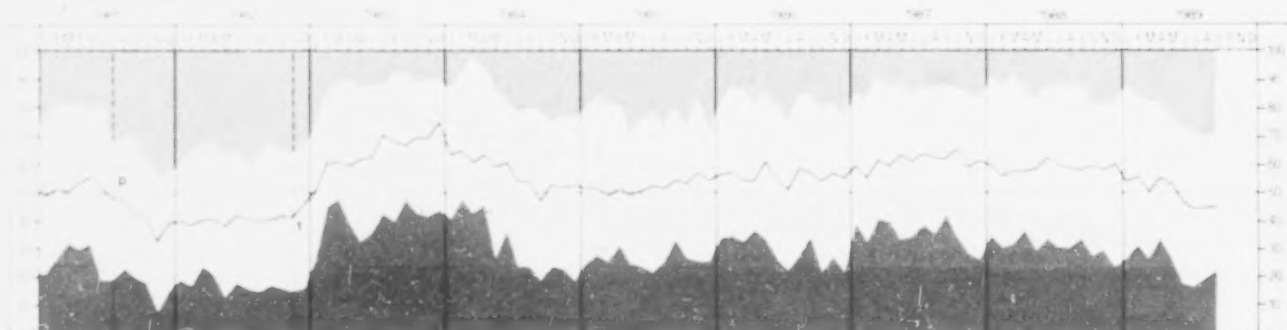
PRODUCTION



Production declined in September for the third consecutive month. However, the Production index rose two points to 48.5%, up from the 46.5% reported last month. The latest index is slightly higher than 48.3% in July, which was the first month of decline.

Production	%Better	%Same	%Worse	Net	Index
September	18	64	18	0	49.5
August	15	61	24	9	46.5
July	15	59	26	11	48.3
June	18	67	15	3	52.4

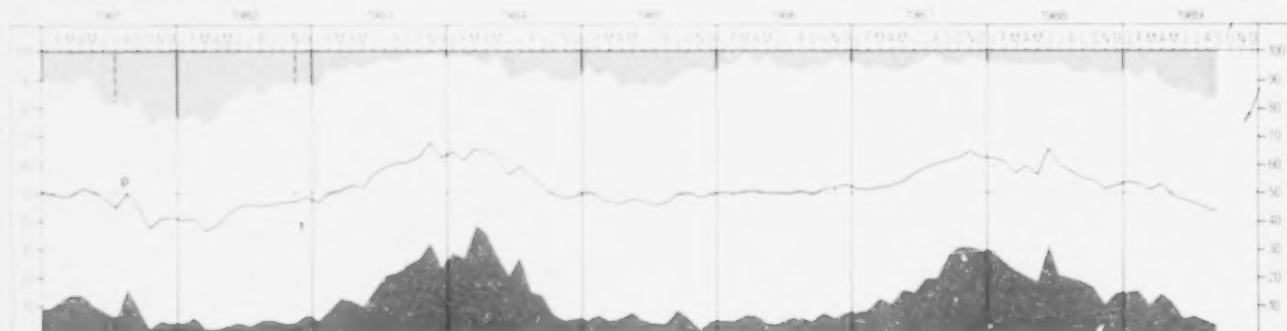
NEW ORDERS



New Orders declined in September for the fourth consecutive month, although at a somewhat slower pace. The New Orders index rose slightly to 45.4%, up from 45.1% in August. Although September was the second consecutive increase in the New Order index, except for July and August, it is still the lowest since November 1982 (41.5%), which was the trough of the previous recession and the beginning of our present economic recovery.

New Orders	%Better	%Same	%Worse	Net	Index
September	23	50	27	-4	45.4
August	20	49	31	11	45.1
July	17	55	28	11	44.8
June	18	56	26	8	47.2

VENDOR DELIVERIES



Vendor Deliveries were faster in September for the fifth consecutive month, mirroring the continued decline in demand and greater availability. The Vendor Deliveries index fell for the fifth consecutive month and, at 43.8%, is the lowest since May 1982 (42.1%). The improvement in availability was further confirmed by the drop in the number of items in short supply to eight, down from 12 in August.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
September	4	80	16	12	43.8
August	5	78	17	12	44.9
July	7	79	14	-7	46.9
June	6	80	14	8	47.5

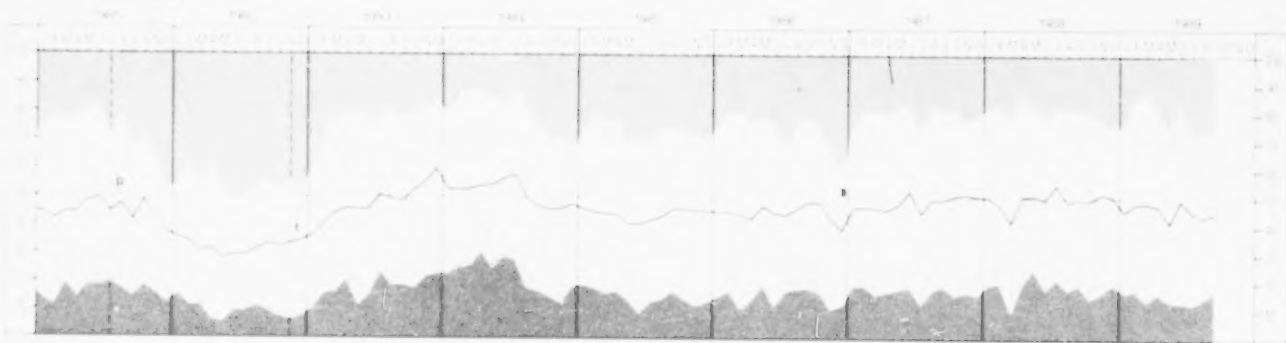
IN SHORT SUPPLY:

Castings (10th time in 13 months); **Bleached Paperboard** (15th consecutive month, but reported off allocation); **Acrylic Acid** (14th time in 15 months, used in manufacturing plastics); **Caustic Soda Ash** (28th consecutive month, used heavily in paper-making, petroleum refining and soap-making); **Sodium Chlorate** (4th consecutive month, used heavily in paper-making and dyeing); **Titanium Dioxide** (26th consecutive month, used as a whitener in coatings, paints, paper and other industrial applications); **Bearings** (14th consecutive month, a consequence of anti-dumping suits); **Milk** (used in food processing).

UP IN PRICE:

Copper (After being reported down in price in August for 3rd consecutive month); **Lead** (After being reported down in April, used heavily in making paints, petroleum, pipe and batteries); **Bearings** (14th time in 15 months); **Castings** (11th time in 14 months); **Capacitors** (used heavily in consumer and industrial electronic products); **Electric Motors** (2nd time in 3 months, industry is capacity-restrained); **Caustic Soda Ash** (34th consecutive month, used heavily in paper-making, petroleum refining and soap-making); **Epoxy Resin** (used chiefly in coatings and adhesives); **Rayon**.

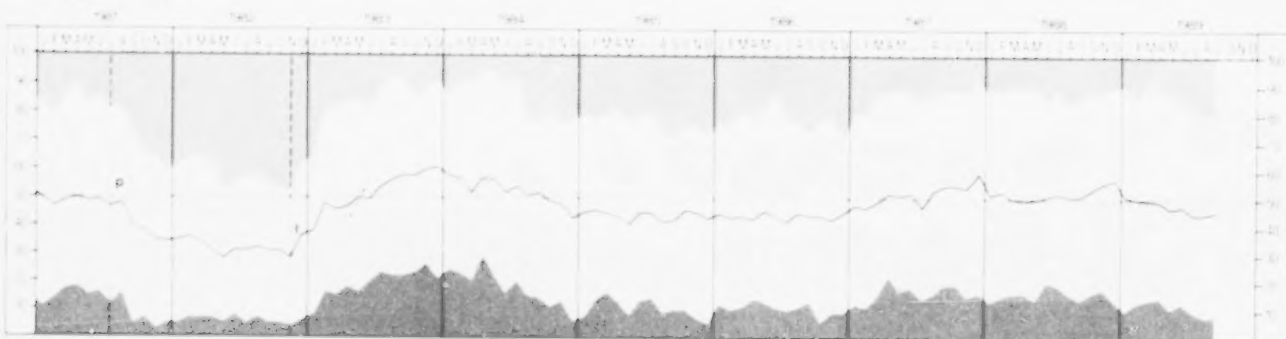
INVENTORIES



Inventories declined for the ninth consecutive month although the rate of decrease was less than in August. The Inventories index rose to 45.1%, up from 43.3% last month. Purchasers remain intent on keeping inventories in line with production demands.

Inventories	%Higher	%Same	%Lower	Net	Index
September	18	56	26	8	45.1
August	15	59	26	11	43.3
July	13	60	27	14	45.5
June	14	66	18	4	49.7

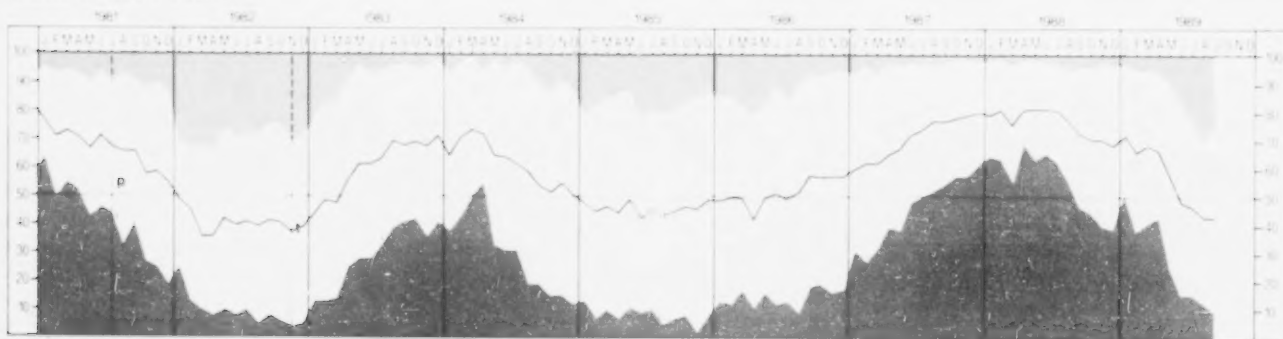
EMPLOYMENT



Employment declined in September for the eighth consecutive month, although the rate of the decline was not as much as in August. The Employment index registered 45.9%, up from 44.7% last month and from 44.4% in July.

Employment	%Higher	%Same	%Lower	Net	Index
September	9	71	20	11	45.9
August	8	72	20	12	44.7
July	10	72	18	8	44.4
June	13	72	15	2	47.4

COMMODITY PRICES



Prices declined in September for the fourth consecutive month. The Price index declined at the same sharp rate as in August 43.1%, which is the lowest since April 1986 (42.8%). The number of commodities reported higher in price remained at nine, while 25 items were reported lower priced.

Prices	%Higher	%Same	%Lower	Net	Index
September	10	65	25	15	43.1
August	13	57	30	17	43.1
July	16	61	23	7	46.9
June	16	66	18	2	48.5

DOWN IN PRICE:

Aluminum (6th consecutive month), **Nickel** (4th consecutive month, used heavily in making stainless steel, plating metals and batteries), **Steel** (after being reported up in price in May for 32nd time in 33 months), **Printing Paper** (3rd consecutive month, after being reported up in price in April for 29th time in 28 months), **Ethylene** (5th consecutive month, used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Derivatives**, **Methyl Ethyl Ketone (MEK)** (4th time in 7 months, used heavily as a chemical solvent in surface coatings and in making resins), **Methanol** (8th time in 9 months, used heavily as a solvent and in synthesizing other chemicals), **Toluene** (3rd consecutive month, used heavily in making explosives, dyes and benzoic acid, as a solvent in paint and as a gasoline additive), **Phthalic Anhydride** (2nd consecutive month, used heavily in making artificial resins, benzoic acid and phthalates), **Plastic Resins** (2nd consecutive month, after being reported

up in price in April for 20th time in 21 months), **Polyethylene**, **Polyethylene Resin** (6th consecutive month, used heavily in making packaging materials and paper coatings), **Styrene** (5th consecutive month, used chiefly in making synthetic rubber, plastic resins and plastic), **Polystyrene** (2nd consecutive month, used chiefly in making synthetic rubber, plastic resins and plastic), **Polyvinyl Chloride (PVC)** (3rd consecutive month, a rubber substitute in wire and cable coating, pipe, tubing, textile finishes and belting), **Polypropylene** (6th time in 8 months, used in making fabrics, carpets and yarns), **Propylene**, **Sulfur** (2nd consecutive month, used heavily in making matches, gunpowder, sulfuric acid, plastics, enamels and bleaching woodpulp), **Sulfuric Acid**, **Fuel Oil** (2nd time in 3 months), **Natural Gas** (3rd consecutive month, after being reported up in price in June), **Silicon** (used heavily in making transistors, diodes and semiconductors), **DRAMS** (2nd time in 5 months, dynamic electronic memory devices used heavily in computers).

BUYING POLICY

Lead times for Capital Expenditures lengthened slightly in September. The number of members reporting lead times in the significant 6 months and longer category was 54%, up somewhat from 52% the two previous months and the most since May (55%).

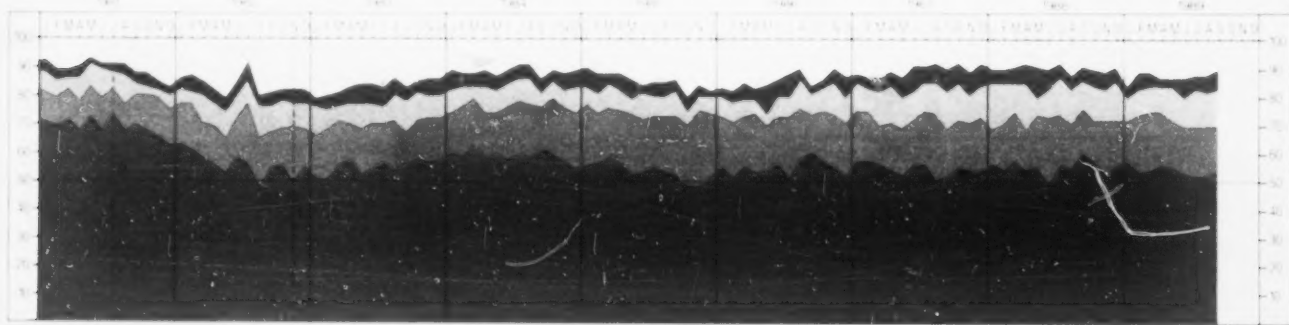
Lead times for Production Materials remained virtually unchanged in September. The number of members reporting lead times of 30 days or less increased to 54%, down slightly from 55% in August.

Lead times for Maintenance, Repair and Operating (MRO) Supplies lengthened slightly. The number of purchasers reporting buying hand-to-mouth decreased to 44%, down from 48% in August, which was the most since January 1987 (50%).

Percent Reporting

	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos and Longer		Hand to Mouth	30 Days	60 Days	90 Days	6 Mos and Longer		Hand to Mouth	30 Days	60 Days	90 Days	6 Mos and Longer
Capital Expenditures						Production Materials						MRO Supplies					
September	10	7	13	16	54	September	16	38	28	14	4	September	44	42	11	2	1
August	12	8	12	18	50	August	16	39	29	13	4	August	48	36	13	1	2
July	12	6	13	18	50	July	16	37	31	14	3	July	44	42	11	3	0
June	13	7	10	17	53	June	14	38	30	13	5	June	41	44	12	3	0

CAPITAL EXPENDITURES

Commodity Report
September 1989

TEXTILES — Prepared by the NAPM Textile Committee. Gerry R. Korver, C.P.M., K-Products Inc., Orange City, Iowa.

COTTON, POLYESTER, GREIGE GOODS: Lack of supply continues to hold fiber pricing high. Major producers of polyester continue to take advantage of Eastman Chemicals departure. An overseas firm is building a new facility in the Carolinas, but will not have an impact until late 1990. Cotton crop production remains tentative, but indications are that supply and pricing will remain consistent through second quarter of next year.

NYLON AND SPECIALTY FABRICS: Nylon supply has been tight for some time, but may loosen in the next two quarters. However, pricing will not decrease for some time as the demand remains high. Increases may be seen on certain denier, but should be minimal. Specialty fabrics have seen the same increases in raw material but to a higher extent. Concerns are not a question of fighting the price increases, but rather trying to maintain the availability of supply. Pricing is somewhat stabilized for the present, however, there is talk of January price increases. Again the main question is continued supply of quality raw material.

CONVERTING: Converting continues to see firm lead times, with most of the increase for raw materials passed onto the customers. Anticipate small increases again at the beginning of next year.

NON-FERROUS METALS — Prepared by the NAPM Non-Ferrous Metals Committee. Chair, Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, MI.

ALUMINUM: Although aluminum prices have eroded (\$1.17 lb. at January to the low \$.80 lb. range presently), the price is now stabilized, somewhat buoyed by premium grades of material. Mill products to face competition from alternative materials, and prices generally lag behind ingot prices.

Supply and demand are balanced, with current primary production slightly ahead of apparent demand. This may lead to some building of inventories.

Exports continue their strong rise, therefore, a stimulus continues in the economy, particularly manufacturing. Virtually all projected growth in 1988-90 will come through the export sector.

Demand remains fairly high in the aluminum industry. By historical standard, any slippage in shipments will be modest. For the balance of 1989 U.S. and Western World aluminum industry shipments are projected to

rise slower than originally projected — 2.1% in 1990 shipments will rise a very modest 1% before accelerating 4 to 5% in 1991.

Aerospace is booked for this year with airline requirements backlogged into the mid 1990s. Even with sluggish auto industry sales forecast, an increase in usage will offset a reduced number of vehicles sold. Distribution remains strong.

MAGNESIUM: Primary magnesium shipments for the desulfurization of iron and steel have increased again in 1988 for the sixth year. Shipments were up more than 30 percent from 1987; demand has more than tripled from 1982 levels. This growth rate is attributed to continually increased use by U.S. and Canadian die casters, most of this growth fueled by automotive. High tech computer components are also contributing. If this rate of growth continues, the demand will be 50,000,000 pounds in 1992.

As of this writing, the producer stocks dropped another 1200 metric tons in the second quarter to a new low of 25,400 MT. This is only a 37 days supply. Production has inched up 1,000 MT to 62,700 MT with all of the increase coming from Western Europe; shipments by the Western World's producers is unchanged from the first quarter of this year.

NICKEL: Prices are strong now and will probably continue to get stronger because the stainless steel mills, nickel inventories are low, they are in the market to buy. First quarter 1990 is expected to be strong because of the balance in market supply and demand. One thing that could soften the nickel market is an economic recession in 1990.

Little new development is expected in nickel mining and refining to affect the market. Nickel price will continue at current levels or higher for the next 6 to 9 months.

Inco and Falconbridge labor contract both expire in 1991.

TIN: After advancing to \$4.95 lb. prior to the resumption of LME tin trading on 6.1, tin fell to \$3.65 this summer. The collapse was due to lack of consumer buying during the summer vacation period rather than a surplus of stock. With the outlook for a recession within the next 9 months looking more remote, we look for a reasonable demand, without excessive stocks. Prices should rise steadily from the present \$4.00 lb. to \$4.50 within the next 6 months with no shortages projected.

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Note: The next issue of **REPORT ON BUSINESS** will be available November 1, 1989.